ANNUAL REPORT CHECKLIST
for
FISCAL YEAR ENDED:
December 31, 2012

PROVIDER: **Varenna at Fountaingrove LLC / Varenna LLC**

FACILITY(IES): **Varenna at Fountaingrove**

CONTACT PERSON: **Joseph G Lin**

TELEPHONE NO.: **(707) 535.3288**

✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓

Your complete annual report must consist of **3 copies** of all of the following:

X This cover sheet.

X Annual Provider Fee in the amount of: $ 9,892.00

- ✓ If applicable, late fee in the amount of: $__________

X Certification by the provider's chief *executive* officer that:
- ✓ The reports are correct to the best of his/her knowledge.
- ✓ Each continuing care contract form in use or offered to new residents has been approved by the Department.
- ✓ The provider is maintaining the required liquid reserve and refund reserve, if applicable.

X Evidence of the provider's fidelity bond.

✓ The provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.

✓ The provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.

X The provider's "Continuing Care Retirement Community Disclosure Statement" for **each** community. (4 copies)

Oakmont
Senior Living

RECEIVED
APR 30 2013
CONTINUING CARE
CONTRACTS BRANCH

April 26, 2013

Continuing Care Contracts Branch
Department of Social Services
744 P Street
MS 8-3-90
Sacramento, CA 95814

Re: Varenna at Fountaingrove LLC / Varenna LLC

Enclosed, please find the following:

- Check to the Continuing Care Providers fee Fund
- 3 copies of the 2012 Annual Report for Varenna at Fountaingrove, along with applicable attachments
- 4 Copies of 2012 Disclosure Statement

As always, please do not hesitate to let me know if you have any questions or need further information.

Sincerely,

Elena Feliciano

Elena Feliciano
Controller

220 Concourse Blvd. • Santa Rosa, CA 95403
Main 707-535-3200 • Fax 707-535-3299
oakmontseniorliving.com

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	223
[2]	Number at end of fiscal year	219
[3]	Total Lines 1 and 2	442
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	221
	All Residents	
[6]	Number at beginning of fiscal year	310
[7]	Number at end of fiscal year	285
[8]	Total Lines 6 and 7	595
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of *all* residents	297.5
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (round to two decimal places).	0.74

FORM 1-2
ANNUAL PROVIDER FEE

Line			TOTAL
[1]	Total Operating Expenses (including depreciation and debt service - interest only)		$17,833,700
[a]	Depreciation	$4,290,000	
[b]	Debt Service (Interest Only)	$226,900	
[2]	Subtotal (add Line 1a and 1b)		$4,516,900
[3]	Subtract Line 2 from Line 1 and enter result.		$13,316,800
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)		74%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)		$9,892,480
			x .001
[6]	**Total Amount Due** (multiply Line 5 by .001)		$9,892

PROVIDEI Varenna at Fountaingrove LLC / Varenna LLC
COMMUN Varenna at Fountaingrove

Oakmont
Senior Living

April 26, 2013

Continuing Care Contracts Branch
California Department of Social Services

To Whom It May Concern:

I, William P Gallaher, certify that the annual audit, reports and any amendments thereto submitted for December 31, 2012 for Varenna at Fountaingrove LLC / Varenna LLC are true and correct to the best of my knowledge.

Varenna at Fountaingrove continuing care contract form in use or offered to new residents has been approved by the Department of Social Services.

Varenna at Fountaingrove is maintaining the required liquid reserve.

Varenna at Fountaingrove does not offer refundable Contracts.

Sincerely,

William P Gallaher
Varenna at Fountaingrove LLC / Varenna LLC
Managing Member

220 Concourse Blvd. • Santa Rosa, CA 95403
Main 707-535-3200 • Fax 707-535-3299
oakmontseniorliving.com

Client#: 139723 OAKMMANA

ACORD™ CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY): 04/22/2013

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER

Propel Insurance
Tacoma Commercial Insurance
1201 Pacific Ave, Suite 1000
Tacoma, WA 98402

CONTACT NAME: Karen Robinson
PHONE (A/C, No, Ext): 800 499-0933 FAX (A/C, No): 866.577.1326
E-MAIL ADDRESS:

INSURER(S) AFFORDING COVERAGE	NAIC #
INSURER A : Columbia Casualty Company	31127
INSURER B : American Casualty Co of Reading	
INSURER C :	
INSURER D :	
INSURER E :	
INSURER F :	

INSURED

Integral Senior Living, LLC
c/o Oakmont Management Group LLC
220 Concourse Blvd.
Santa Rose, CA 95403

RECEIVED

COVERAGES CERTIFICATE NUMBER: REVISION NUMBER:

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
A	GENERAL LIABILITY X COMMERCIAL GENERAL LIABILITY CLAIMS-MADE X OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: POLICY PRO-JECT X LOC			4022802553	08/04/2012	08/04/2013	EACH OCCURRENCE DAMAGE TO RENTED PREMISES (Ea occurrence) MED EXP (Any one person) PERSONAL & ADV INJURY GENERAL AGGREGATE PRODUCTS - COMP/OP AGG Prof. Liab.	$1,000,000 $100,000 $5,000 $1,000,000 $3,000,000 $3,000,000 $$1mm/$3mm
B	AUTOMOBILE LIABILITY X ANY AUTO X ALL OWNED AUTOS X SCHEDULED AUTOS X HIRED AUTOS X NON-OWNED AUTOS X $1,000 Comp. X $1,000 Coll			4022802522	08/04/2012	08/04/2013	COMBINED SINGLE LIMIT (Ea accident) BODILY INJURY (Per person) BODILY INJURY (Per accident) PROPERTY DAMAGE (Per accident)	$1,000,000 $ $ $ $
A	X UMBRELLA LIAB X OCCUR EXCESS LIAB CLAIMS-MADE DED X RETENTION $$10,000			4022802536	08/04/2012	08/04/2013	EACH OCCURRENCE AGGREGATE	$10,000,000 $10,000,000 $
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY Y/N ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	N/A					WC STATU-TORY LIMITS OTH-ER E.L. EACH ACCIDENT E.L. DISEASE - EA EMPLOYEE E.L. DISEASE - POLICY LIMIT	 $ $ $

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

RE Named Insureds:
*Cardinal Point at Mariner Square, LLC
OakmontSL of Alameda, LP
2431 Mariner Square Dr., Alameda CA 94501
*Varenna Assisted Living, LLC
(See Attached Descriptions)

CERTIFICATE HOLDER

Evidence of Insurance

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

AUTHORIZED REPRESENTATIVE

Teresa Grady Mann

DESCRIPTIONS (Continued from Page 1)

Varenna at Fountaingrove, LLC
Varenna Care Center, LP
dba Villa Capri at Fountaingrove
1397 Fountaingrove Pkwy., Santa Rosa CA 95403
*Varenna, LLC
Varenna at Fountaingrove, LLC
1401 Fountaingrove Pkwy., Santa Rosa CA 95403
*Segovia Operations, LLC
Segovia of Palm Desert, LLC
39905 Via Scena, Palm Desert CA 92260

Report of Independent Auditors and
Consolidated Financial Statements with
Consolidating Information

Varenna at Fountaingrove LLC and Subsidiaries

December 31, 2012 and 2011

CONTENTS

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

To the Members
Varenna at Fountaingrove LLC and Subsidiaries

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Varenna at Fountaingrove LLC and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations and changes in owners' deficit and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Varenna at Fountaingrove LLC and Subsidiaries (the Company) as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2012 consolidating information presented on pages 13 through 16 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Moss Adams LLP

Santa Rosa, California
April 26, 2013

CONSOLIDATED FINANCIAL STATEMENTS

VARENNA AT FOUNTAINGROVE LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 11,930,900	$ 15,141,400
Restricted cash	1,040,300	724,700
Accounts receivable and other assets	239,400	146,300
Due from related parties	3,120,000	-
Deferred financing related costs, net	1,513,200	2,118,000
Investment in real estate		
Buildings and improvements	91,043,700	107,586,400
Land	3,836,000	4,500,000
Furniture, fixtures, and equipment	5,751,600	5,708,700
Accumulated depreciation	(18,069,000)	(16,772,100)
Total investment in real estate, net	82,562,300	101,023,000
Total assets	$ 100,406,100	$ 119,153,400
LIABILITIES AND OWNERS' DEFICIT		
Accounts payable and accrued liabilities	$ 1,120,500	$ 533,200
Accrued interest	3,900	2,300
Deferred revenue	256,400	217,900
Due to related parties	326,800	43,300
Debt obligations	57,932,400	74,962,400
Deferred revenue from entrance fees	83,022,300	84,717,100
Total liabilities	142,662,300	160,476,200
Owners' deficit	(42,256,200)	(41,322,800)
Total liabilities and owners' deficit	$ 100,406,100	$ 119,153,400

See accompanying notes.

VARENNA AT FOUNTAINGROVE LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN OWNERS' DEFICIT
Years Ended December 31, 2012 and 2011

	2012	2011
REVENUE		
Continuing care contracts	$ 12,346,300	$ 14,846,600
Non-continuing care contracts	4,935,000	4,757,000
Total revenue	17,281,300	19,603,600
OPERATING EXPENSES		
Continuing care contracts operating expenses	6,948,600	7,225,500
Non-continuing care contracts operating expenses	2,613,000	2,707,200
Management fees	949,500	863,400
General and administrative	508,800	1,011,900
Letter of credit fees	1,512,100	385,100
Depreciation	4,290,000	4,386,500
Facility lease	300,000	-
Total operating expenses	17,122,000	16,579,600
INCOME FROM CONTINUING OPERATIONS	159,300	3,024,000
OTHER INCOME (EXPENSE)		
Interest income	19,600	25,700
Miscellaneous	3,700	7,200
Amortization of deferred financing related costs	(444,800)	(612,100)
Interest expense	(266,900)	(2,752,000)
NET LOSS	(529,100)	(307,200)
OWNERS' DEFICIT, beginning of year	(41,322,800)	(29,520,800)
CONTRIBUTIONS	15,398,400	43,795,800
DISTRIBUTION OF MEMBERS' DEFICIT IN VILLA CAPRI PROPERTY	5,243,900	-
DISTRIBUTIONS	(21,046,600)	(55,290,600)
OWNERS' DEFICIT, end of year	$ (42,256,200)	$ (41,322,800)

See accompanying notes.

VARENNA AT FOUNTAINGROVE LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from continuing care contracts	$ 8,418,100	$ 8,173,100
Cash received from entrance fees	9,781,800	8,454,200
Cash received from non-continuing care contracts	4,936,700	4,733,400
Cash paid to affiliates, net	(2,836,500)	(191,300)
Cash paid to employees and suppliers	(10,030,500)	(10,953,100)
Cash paid for management fees	(949,500)	(863,400)
Cash paid for letter of credit fees	(1,512,100)	(385,100)
Cash paid for facility lease	(300,000)	-
Interest received	19,600	25,700
Interest paid	(265,300)	(2,990,200)
Miscellaneous receipts	3,700	7,200
Net cash from operating activities	7,266,000	6,010,500
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in real estate	(89,300)	(88,900)
Net cash from investing activities	(89,300)	(88,900)
CASH FLOWS FROM FINANCING ACTIVITIES		
Refunds of entrance fees	(7,575,700)	(6,644,800)
Proceeds from debt obligations	8,765,000	56,000,000
Payments made on debt obligations	(5,645,000)	(47,450,600)
Change in restricted cash	(235,000)	(238,600)
Member contributions	15,398,400	43,795,800
Member distributions	(20,608,800)	(55,290,600)
Deferred financing related costs	(486,100)	(1,699,300)
Net cash from financing activities	(10,387,200)	(11,528,100)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,210,500)	(5,606,500)
CASH AND CASH EQUIVALENTS, beginning of year	15,141,400	20,747,900
CASH AND CASH EQUIVALENTS, end of year	$ 11,930,900	$ 15,141,400
RECONCILIATION OF NET LOSS TO NET CASH FROM OPERATING EXPENSES		
Net loss	$ (529,100)	$ (307,200)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation	4,290,000	4,386,500
Amortization of deferred financing related costs	444,800	612,100
Amortization of deferred revenue from entrance fees	(3,963,300)	(6,647,900)
Changes in:		
Restricted cash	(80,600)	(45,700)
Accounts receivable and other assets	(93,100)	147,400
Due from related parties	(3,120,000)	-
Accounts payable and accrued liabilities	149,500	(80,400)
Accrued interest	1,600	(238,200)
Deferred revenue	38,500	(127,600)
Due to related parties	283,500	(191,300)
Deferred revenue from entrance fees	9,844,200	8,502,800
Net cash from operating activities	$ 7,266,000	$ 6,010,500

See accompanying notes.

		2012		2011
SUPPLEMENTAL CASH-FLOW INFORMATION				
Noncash investing and financing activities:				
Distribution of members' deficit in Villa Capri Property				
Deferred financing costs	$	646,100	$	-
Investment in real estate, net	$	14,260,000	$	-
Debt obligations	$	(20,150,000)	$	-
Owners' deficit	$	5,243,900	$	-
Distributions payable to members included in accounts payable and accrued liabilities	$	437,800	$	-

See accompanying notes.

NOTE 1 – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of operations – Varenna at Fountaingrove LLC (the Company) was formed on April 12, 2004, as a California limited liability company. The Company's purpose is to develop, operate, lease, and own apartments and a continuing care retirement community, located in Santa Rosa, California (Varenna).

Basis of accounting and principles of consolidation – The consolidated financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America and include the accounts of the Company, Varenna LLC, Varenna Apartments LLC, and Varenna Assisted Living LLC. All significant transactions between these entities have been eliminated.

Use of estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of risk – Financial instruments potentially subjecting the Company to concentrations of credit risk consist primarily of demand deposits and other cash accounts (including restricted amounts) that may be in excess of Federal Deposit Insurance Corporation insured limits.

Cash and cash equivalents – The Company considers all highly-liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Restricted cash – Restricted cash consists of accounts used as collateral as required by one of the Company's lenders.

Investment in real estate – Investment in real estate is recorded at cost and includes interest and property taxes capitalized on long-term construction projects during the construction period, as well as other costs directly related to the development and construction of facilities. Investment earnings from unexpended proceeds of tax-exempt borrowings are also capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings and improvements	30 - 40 years
Furniture, fixtures, and equipment	3 - 10 years

The Company reviews its investments in real estate whenever events or changes in circumstances indicate that the cost basis of such assets may not be recoverable. If the cost basis of an investment in real estate is greater than the projected future undiscounted net cash flows (before interest) from that property, an impairment loss is recognized. Impairment losses are calculated as the difference between the property's cost basis and its estimated fair value, net of disposal costs. No such impairment losses have been recognized to date. An investment in real estate held for sale is carried at the lower of its carrying amount or estimated fair value less costs to sell. The Company considers investment in real estate held for sale when the property is being actively marketed for sale, and expects it to sell within one year. There were no properties held for sale at December 31, 2012 and 2011.

Accounts receivable and other assets – Accounts receivable and other assets consist of receivables from tenants, deposits, and prepaid expenses. Management regularly monitors and adjusts its reserves and allowances related to these receivables. Accounts deemed to be uncollectible are written-off only after all reasonable collection efforts are exhausted. There was no allowance recorded for accounts receivable at December 31, 2012 and 2011.

Deferred financing related costs – Costs incurred in connection with obtaining construction and permanent financing have been deferred and are amortized over the term of the associated indebtedness on the straight-line method, which approximates the effective-interest method.

Interest rate caps – The Company entered into an interest rate cap agreement associated with its borrowings as disclosed in Note 3. An interest rate cap is considered a derivative financial instrument in accordance with accounting standards that require every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the consolidated balance sheets as either an asset or liability measured at its estimated fair value. The accounting standards also require that changes in the derivative's fair value be recognized currently in consolidated earnings unless specific hedge accounting criteria are met. The only derivative used by the Company is the interest rate cap with changes in their fair-market value recorded as a component of interest expense. As of December 31, 2012 and 2011, management has determined the difference between the carrying value and the fair-market value of the derivatives to be immaterial.

Revenue recognition – Resident fee revenue is recorded when services are rendered and consists of fees for basic housing, support services, and fees associated with additional services, such as personalized health and assisted living care. Residency agreements are generally for a term of 30 days to one year, with resident fees billed monthly in advance. Revenues for certain care services provided are also charged in advance. Additional ancillary charges are billed monthly in arrears. As of December 31, 2012 and 2011, $256,400 and $217,900, respectively has been recorded in deferred revenue related to fees paid by applicants prior to occupancy.

Residents pay an entrance fee to occupy a unit and pay monthly fees for housing, food, and services. The Company has residency agreements that require the resident to pay an upfront entrance fee prior to joining the community that is 100% refundable within 90 days of occupancy. After the initial 90 days of occupancy, the entrance fees are a combination of refundable and non-refundable in accordance with the terms of the contracts. The non-refundable portion of the entrance fee is recorded as deferred revenue and amortized over the estimated stay of the resident based on an actuarial valuation. The refundable portion of a resident's entrance fee is refundable upon the resale of the unit and is amortized over the remaining life of the facility.

Certain contracts require the refundable portion of the entrance fee to be refunded only upon resale of the unit (contingently refundable). Upon resale, the Company may receive re-occupancy proceeds in the form of additional contingently refundable fees, refundable fees, or non-refundable fees.

Deferred revenue from entrance fees, amortized over the estimated stay of the resident, was approximately $13,990,600 and $14,957,700 at December 31, 2012 and 2011, respectively. Entrance fees subject to refund at December 31, 2012 and 2011, were $69,031,700 and $69,759,400, respectively. It is management's expectation that future refunds will not have a significant effect on the consolidated financial statements.

Revenue recognized from amortization of refundable and non-refundable entrance fees totaled $3,963,300 and $6,647,900 for the years ended December 31, 2012 and 2011, respectively.

The Company's operations also include leasing apartment units. Rental income is recognized on a straight-line basis over the lives of the related leases when collectability is reasonably assured. The lease terms are generally for periods of one year or less. Any difference between the rental revenue recognized and amounts due under the respective lease agreements with terms in excess of one year is recorded as deferred rent receivable. Ongoing credit evaluations are performed and an allowance for potential credit losses is provided against the portion of accounts receivable that is estimated to be uncollectible.

Income taxes – The Company is taxed as a partnership for federal and state purposes. As a partnership, all federal and state income tax liability flows through to the Company's members. No provision for income taxes is included in the accompanying consolidated financial statements.

The Company follows the accounting standard related to accounting for uncertain tax positions. The standard prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters, such as derecognition, interest, penalties, and disclosures required. The Company does not have any entity level uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and the State of California. Generally, the Company is subject to examination by U.S. federal (or state and local) income tax authorities for three years from the filing of a tax return. The Company recognizes interest and penalties related to income tax matters in operating expenses.

Obligation to provide future services – If the present value of estimated future cash outflows to provide services to residents exceeds the present value of estimated future cash inflows from residents, a liability is recognized. The Company has determined that no accrual for the obligation to provide future services and use of facilities to current residents was required at December 31, 2012 and 2011. The discount rate used to calculate the obligation to provide future services is 5%.

Statutory cash reserve requirements – The Company is subject to statutory cash reserve requirements. At December 31, 2012 and 2011, the Company's reserves were in excess of such requirements by $8,509,900 and $7,905,300, respectively, as calculated in accordance with the Continuing Care Contract Statutes of the California Health and Safety Code.

New accounting pronouncements – In July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2012-01, *Continuing Care Retirement Communities – Refundable Advance Fees* ("ASU No. 2012-01") to clarify that an entity should classify an advance fee as deferred revenue when a continuing care retirement community has a resident contract that provides for payment of the refundable advance fee upon reoccupancy by a subsequent resident, which is limited to the proceeds of reoccupancy. Refundable advance fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of reoccupancy should be accounted for and reported as a liability. The adoption of ASU No. 2012-01 is effective for the Company beginning January 1, 2014. Management is currently evaluating the impact of the adoption of ASU No. 2012-01 on the Company's consolidated financial statements.

Subsequent events – Subsequent events are events or transactions that occur after the consolidated balance sheet date but before the consolidated financial statements are issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet, but arose after the consolidated balance sheet date and before the consolidated financial statements were available to be issued.

The Company has evaluated subsequent events through April 26, 2013, which is the date the consolidated financial statements were available to be issued, in accordance with the Company's policy related to disclosures of subsequent events, and has not identified any material events that should be disclosed.

Reclassifications – Certain reclassifications have been made to conform the prior year consolidated financial statements to the current year presentation. Such reclassifications had no impact on the consolidated net results of operations as previously reported.

NOTE 2 – FAIR VALUE MEASUREMENTS

The Company adopted accounting standards for fair value measurements for all financial instruments accounted for at fair value on a recurring basis. The accounting standards establish a framework for measuring fair value and expand related disclosures. Broadly, this framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The standard establishes market or observable inputs as the preferred source of values, followed by assumptions based on hypothetical transactions in the absence of market inputs.

The valuation techniques required by the standard are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. The three levels of inputs used to establish fair-value are as follows:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drives are observable.

Level 3: Significant inputs to the valuation model that are unobservable.

As of December 31, 2012 and 2011, the Company had no material balances recorded at fair value. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents – The carrying amount approximates fair value because of the short maturity of those instruments.

Interest rate caps – The interest rate caps are recorded at the estimated fair value, which management has determined is not material.

Debt obligations – The fair value of the Company's debt obligations is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The estimated fair values of the Company's debt obligations approximate the carrying values at December 31, 2012 and 2011.

NOTE 3 – DEBT OBLIGATIONS

	2012	2011
Varenna LLC Taxable Variable Rate Demand Senior Living Facility Revenue Bonds; 2011 Series A; bearing interest at a variable rate (0.21% and 0.24% at December 31, 2012 and 2011, respectively) payable monthly; maturing December 2051; secured by letters of credit maturing on December 2021; guaranteed by a member and spouse of OSL	$ 56,000,000	$ 56,000,000
California Statewide Communities Development Authority tax-exempt variable Multifamily Housing Revenue Bonds were distributed to the members of OSL during 2012; Varenna Assisted Living LLC Series 2006F; bearing interest at a variable rate (0.12% and 0.24% at December 31, 2012 and 2011, respectively) payable monthly; maturing February 2041; secured by letters of credit; guaranteed by a member and spouse of OSL	-	11,386,000
California Statewide Communities Development Authority tax-exempt variable Multifamily Housing Revenue Bonds; Varenna Assisted Living LLC Series 2006F-T; bearing interest at a variable rate (0.12% and 0.24% at December 31, 2012 and 2011, respectively) payable monthly; maturing February 2041; secured by letters of credit; guaranteed by a member and spouse of OSL. The bonds were paid off with the proceeds of a new bond issuance for $8,765,000 that was distributed to the members of OSL during 2012	-	5,614,000
Amortizing income property note payable to a financial institution; commitment of $1,425,000; bearing interest at a variable interest rate not to exceed 10.75% or go below 5.2% (5.2% at December 31, 2012 and 2011). Principal and interest payable monthly; maturing July 2039; 100% guaranteed by the majority member of OSL	1,349,400	1,372,500
Loan payable to a financial institution, which is also a related party (see note 4); commitment of $605,000; bearing interest at 8% payable monthly; maturing April 2013; 100% guaranteed by the majority member of OSL. Subsequent to year end, the loan maturity was extended through March 2014	583,000	589,900
	$ 57,932,400	$ 74,962,400

The bonds are payable from, and secured solely by, the revenues pledged under the bond indenture agreements, including amounts drawn under bank letters of credit to pay the principal, purchase price, and interest on the bonds. The letters of credit for the bonds expire in December 2021.

All debt obligations are secured by deeds of trust on the investment in real estate. Interest costs, including amortization of deferred financing related costs, incurred totaled $711,700 and $3,364,100 in 2012 and 2011, respectively.

The loan agreements contain general affirmative and negative covenants that include provisions for the upkeep of the properties, maintenance, insurance, compliance with laws, and financial reporting requirements. Many agreements include restrictions on certain transactions and changes in capital structure. Management believes the Company is in compliance with these covenants.

Future minimum principal payments due under the debt obligations subsequent to December 31, 2012, are as follows:

Year Ending December 31,		
2013	$	28,200
2014		602,900
2015		26,100
2016		27,500
2017		29,100
Thereafter		57,218,600
	$	57,932,400

NOTE 4 – RELATED-PARTY TRANSACTIONS

As of December 31, 2012 and 2011, the Company had amounts due from related parties of $3,120,000 and $0, respectively. As of December 31, 2012 and 2011, the Company had amounts due to related parties of $326,800 and $43,300, respectively. These balances are noninterest bearing and due on demand.

Pursuant to asset management agreements between the Company and affiliated entities, the Company is obligated to pay an annual asset management fee of $198,000. For the years ended December 31, 2012 and 2011, asset management fees in the amount of $198,000 were incurred, and are included in management fees in the accompanying consolidated statements of operations.

The Company's majority member has a controlling financial interest in a financial institution. As of December 31, 2012 and 2011, the Company had cash deposits with this financial institution of $5,786,600 and $8,668,400, respectively, and had outstanding debt obligations due to this financial institution of $583,000 and $589,900, respectively, (see Note 3). For the years ended December 31, 2012 and 2011, the Company paid interest of $47,000 and $47,500, respectively, to this financial institution.

NOTE 5 – OWNERS' DEFICIT

The liability of each member of the Company is limited to the amount of such member's contributed capital. The Company will cease to exist on January 30, 2051, unless it is dissolved at an earlier date in accordance with the operating agreement.

NOTE 6 – COMMITMENTS

The Company entered into a long-term noncancelable operating lease to operate assisted living facilities with an initial lease term of 20 years, with renewal options of three successive extension terms of four years each, and expiration date through October 2032. Operating lease rent expense is recorded on the straight-line basis and amounted to $300,000 for the year ended December 31, 2012. There was no deferred rent liability recorded as of December 31, 2012.

Future minimum lease payments under these operating lease agreements in effect as of December 31, 2012, are as follows:

Year Ending December 31,		
2012	$	1,806,000
2013		1,842,100
2014		1,879,000
2015		1,916,500
2016		1,954,900
Thereafter		21,429,700
	$	30,828,200

NOTE 7 – CONTINGENCIES

Environmental matters – The Company is not aware of any environmental liability with respect to the properties that would have a material adverse effect on the Company's business, consolidated assets, or consolidated results of operations. There can be no assurance that such a material environmental liability does not exist. The existence of any such material environmental liability could have an adverse effect on the Company's consolidated results of operations.

Litigation – The Company may be involved, from time-to-time, in legal actions relating to the ownership and operations of its properties. In management's opinion, the liabilities, if any, that may ultimately result from such legal actions are not expected to have a material adverse effect on the consolidated financial position, results of operations, or cash flows of the Company.

CONSOLIDATING INFORMATION

VARENNA AT FOUNTAINGROVE LLC AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEETS
December 31, 2012

ASSETS

	Varenna at Fountaingrove LLC	Varenna Assisted Living LLC and Subsidiary	Varenna Apartments LLC	Varenna LLC	Total	Eliminating Entries	Consolidated Total
Cash and cash equivalents	$ 1,000	$ 447,100	$ 5,800	$ 11,477,000	$ 11,930,900	$ -	$ 11,930,900
Restricted cash	-	90,600	-	949,700	1,040,300	-	1,040,300
Accounts receivable and other assets	-	49,900	3,500	186,000	239,400	-	239,400
Due from related parties	-	10,594,600	-	22,273,000	32,867,600	(29,747,600)	3,120,000
Deferred financing related costs, net	-	-	21,800	1,491,400	1,513,200	-	1,513,200
Investment in subsidiaries	(19,982,000)	-	-	-	(19,982,000)	19,982,000	-
Investment in real estate					-		
Buildings and improvements	-	17,100	5,285,800	85,740,800	91,043,700	-	91,043,700
Land	-	-	71,000	3,765,000	3,836,000	-	3,836,000
Furniture, fixtures, and equipment	-	1,117,400	51,500	4,582,700	5,751,600	-	5,751,600
Accumulated depreciation	-	(872,900)	(1,017,000)	(16,179,100)	(18,069,000)	-	(18,069,000)
Total investment in real estate, net	-	261,600	4,391,300	77,909,400	82,562,300	-	82,562,300
Total assets	$ (19,981,000)	$ 11,443,800	$ 4,422,400	$ 114,286,500	$ 110,171,700	$ (9,765,600)	$ 100,406,100

LIABILITIES AND OWNERS' EQUITY (DEFICIT)

	Varenna at Fountaingrove LLC	Varenna Assisted Living LLC and Subsidiary	Varenna Apartments LLC	Varenna LLC	Total	Eliminating Entries	Consolidated Total
Accounts payable and accrued liabilities	$ 440,300	$ 248,700	$ 10,200	$ 421,300	$ 1,120,500	$ -	$ 1,120,500
Accrued interest	-	-	3,900	-	3,900	-	3,900
Deferred revenue	-	62,300	13,500	180,600	256,400	-	256,400
Due to related parties	-	7,521,000	-	22,553,400	30,074,400	(29,747,600)	326,800
Debt obligations	-	-	1,932,400	56,000,000	57,932,400	-	57,932,400
Deferred revenue from entrance fees	-	-	-	83,022,300	83,022,300	-	83,022,300
Total liabilities	440,300	7,832,000	1,960,000	162,177,600	172,409,900	(29,747,600)	142,662,300
Owners' equity (deficit)	(20,421,300)	3,611,800	2,462,400	(47,891,100)	(62,238,200)	19,982,000	(42,256,200)
Total liabilities and owners' equity (deficit)	$ (19,981,000)	$ 11,443,800	$ 4,422,400	$ 114,286,500	$ 110,171,700	$ (9,765,600)	$ 100,406,100

VARENNA AT FOUNTAINGROVE LLC AND SUBSIDIARIES
CONSOLIDATING STATEMENTS OF OPERATIONS
Year Ended December 31, 2012

	Varenna at Fountaingrove LLC	Varenna Assisted Living LLC and Subsidiary	Varenna Apartments LLC	Varenna LLC	Total	Eliminating Entries	Consolidated Total
REVENUE							
Continuing care contracts	$ -	$ -	$ -	$ 12,346,300	$ 12,346,300	$ -	$ 12,346,300
Non-continuing care contracts	-	4,716,700	218,300	-	4,935,000	-	4,935,000
Total revenue	-	4,716,700	218,300	12,346,300	17,281,300	-	17,281,300
OPERATING EXPENSES							
Continuing care contracts operating expenses	-	-	-	6,948,600	6,948,600	-	6,948,600
Non-continuing care contracts operating expenses	-	2,613,000	-	-	2,613,000	-	2,613,000
Management fees	30,000	366,400	4,500	548,600	949,500	-	949,500
General and administrative	17,000	140,800	70,700	280,300	508,800	-	508,800
Letter of credit fees	-	292,700	-	1,219,400	1,512,100	-	1,512,100
Depreciation	-	612,600	183,500	3,493,900	4,290,000	-	4,290,000
Facility Lease	-	300,000	-	-	300,000	-	300,000
Total operating expenses	47,000	4,325,500	258,700	12,490,800	17,122,000	-	17,122,000
INCOME (LOSS) FROM CONTINUING OPERATIONS	(47,000)	391,200	(40,400)	(144,500)	159,300	-	159,300
OTHER INCOME (EXPENSE)							
Interest income	-	2,800	-	16,800	19,600	-	19,600
Miscellaneous	-	-	3,700	-	3,700	-	3,700
Amortization of deferred financing related costs	-	(240,200)	(2,200)	(202,400)	(444,800)	-	(444,800)
Interest expense	-	(24,200)	(117,800)	(124,900)	(266,900)	-	(266,900)
NET INCOME (LOSS)	$ (47,000)	$ 129,600	$ (156,700)	$ (455,000)	$ (529,100)	$ -	$ (529,100)

VARENNA AT FOUNTAINGROVE LLC AND SUBSIDIARIES
CONSOLIDATING STATEMENTS OF CASH FLOWS
Year Ended December 31, 2012

	Varenna at Fountaingrove LLC	Varenna Assisted Living LLC and Subsidiary	Varenna Apartments LLC	Varenna LLC	Total	Eliminating Entries	Consolidated Total
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash received from continuing care contracts	$ -	$ -	$ -	$ 8,418,100	$ 8,418,100	$ -	$ 8,418,100
Cash received from entrance fees	-	-	-	9,781,800	9,781,800	-	9,781,800
Cash received from non-continuing care contracts	-	4,717,300	219,400	-	4,936,700	-	4,936,700
Cash received from (paid to) affiliates, net	-	(3,087,500)	(1,100)	252,100	(2,836,500)	-	(2,836,500)
Cash paid to employees and suppliers	(17,000)	(2,718,300)	(75,700)	(7,219,500)	(10,030,500)	-	(10,030,500)
Cash paid for management fees	(30,000)	(366,400)	(4,500)	(548,600)	(949,500)	-	(949,500)
Cash paid for letter of credit fees	-	(292,700)	-	(1,219,400)	(1,512,100)	-	(1,512,100)
Cash paid for facility lease	-	(300,000)	-	-	(300,000)	-	(300,000)
Interest received	-	2,800	-	16,800	19,600	-	19,600
Interest paid	-	(26,500)	(113,900)	(124,900)	(265,300)	-	(265,300)
Miscellaneous receipts	-	-	3,700	-	3,700	-	3,700
Net cash from operating activities	(47,000)	(2,071,300)	27,900	9,356,400	7,266,000	-	7,266,000
CASH FLOWS FROM INVESTING ACTIVITIES							
Investment in real estate	-	(28,100)	-	(61,200)	(89,300)	-	(89,300)
Receipts from investment in subsidiary	13,100	-	-	-	13,100	(13,100)	-
Net cash from investing activities	13,100	(28,100)	-	(61,200)	(76,200)	(13,100)	(89,300)
CASH FLOWS FROM FINANCING ACTIVITIES							
Refunds of entrance fees	-	-	-	(7,575,700)	(7,575,700)	-	(7,575,700)
Proceeds from debt obligations	-	8,765,000	-	-	8,765,000	-	8,765,000
Payments on debt obligations	-	(5,615,000)	(30,000)	-	(5,645,000)	-	(5,645,000)
Change in restricted cash	-	603,700	-	(838,700)	(235,000)	-	(235,000)
Member contributions	15,398,400	562,600	1,047,800	16,266,600	33,275,400	(17,877,000)	15,398,400
Member distributions	(15,365,000)	(2,269,700)	(1,044,000)	(19,820,200)	(38,498,900)	17,890,100	(20,608,800)
Deferred financing related costs	-	(486,100)	-	-	(486,100)	-	(486,100)
Net cash from financing activities	33,400	1,560,500	(26,200)	(11,968,000)	(10,400,300)	13,100	(10,387,200)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(500)	(538,900)	1,700	(2,672,800)	(3,210,500)	-	(3,210,500)
CASH AND CASH EQUIVALENTS, beginning of year	1,500	986,000	4,100	14,149,800	15,141,400	-	15,141,400
CASH AND CASH EQUIVALENTS, end of year	$ 1,000	$ 447,100	$ 5,800	$ 11,477,000	$ 11,930,900	$ -	$ 11,930,900

CONSOLIDATING STATEMENTS OF CASH FLOWS
Year Ended December 31, 2012

	Varenna at Fountaingrove LLC	Varenna Assisted Living LLC and Subsidiary	Varenna Apartments LLC	Varenna LLC	Total	Eliminating Entries	Consolidated Total
RECONCILIATION OF NET LOSS TO NET CASH FROM OPERATING EXPENSES							
Net income (loss)	$ (47,000)	$ 129,600	$ (156,700)	$ (455,000)	$ (529,100)	$ -	$ (529,100)
Adjustments to reconcile net income (loss) to net cash from operating activities:							
Depreciation	-	612,600	183,500	3,493,900	4,290,000	-	4,290,000
Amortization of deferred financing related costs	-	240,200	2,200	202,400	444,800	-	444,800
Amortization of deferred revenue from entrance fees	-	-	-	(3,963,300)	(3,963,300)	-	(3,963,300)
Changes in:					-		-
Restricted cash	-	(18,200)	-	(62,400)	(80,600)	-	(80,600)
Accounts receivable and other current assets	-	(17,600)	900	(76,400)	(93,100)	-	(93,100)
Due from related parties	-	(5,747,800)	-	(4,691,200)	(10,439,000)	7,319,000	(3,120,000)
Accounts payable and accrued liabilities	-	69,300	(5,000)	85,200	149,500	-	149,500
Accrued interest	-	(2,300)	3,900	-	1,600	-	1,600
Deferred revenue	-	2,600	200	35,700	38,500	-	38,500
Due to related parties	-	2,660,300	(1,100)	4,943,300	7,602,500	(7,319,000)	283,500
Deferred revenue from entrance fees	-	-	-	9,844,200	9,844,200	-	9,844,200
Net cash from operating activities	$ (47,000)	$ (2,071,300)	$ 27,900	$ 9,356,400	$ 7,266,000	$ -	$ 7,266,000
SUPPLEMENTAL CASH-FLOW INFORMATION							
Noncash investing and financing activities:							
Distribution of members' deficit in Villa Capri Property							
Deferred financing costs	$ -	$ 646,100	$ -	$ -	$ 646,100	$ -	$ 646,100
Investment in real estate, net	$ -	$ 14,260,000	$ -	$ -	$ 14,260,000	$ -	$ 14,260,000
Debt obligations	$ -	$ (20,150,000)	$ -	$ -	$ (20,150,000)	$ -	$ (20,150,000)
Owners' deficit	$ 5,243,900	$ 3,796,900	$ -	$ -	$ 9,040,800	$ (3,796,900)	$ 5,243,900
Distributions payable to members included in accounts payable and accrued liabilities	$ 437,800	$ -	$ -	$ -	$ 437,800	$ -	$ 437,800

Report of Independent Auditors and
Continuing Care Liquid Reserve Schedules

Varenna at Fountaingrove LLC and Subsidiaries

As of and for the year ended December 31, 2012

MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

To the Members
Varenna at Fountaingrove LLC and Subsidiaries

We have audited the accompanying financial statements of Varenna at Fountaingrove LLC and Subsidiaries (the Company), which comprise the continuing care liquid reserve schedules, Form 5-1 through Form 5-5 as of and for the year ended December 31, 2012.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the liquid reserve requirements of California Health and Safety Code Section 1792. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the continuing care reserve of Varenna at Fountaingrove LLC and Subsidiaries as of and for the year ended December 31, 2012, in conformity with the liquid reserve requirements of California Health and Safety Code Section 1792.

MOSS ADAMS LLP

Basis of Accounting

We draw attention to the basis of accounting used to prepare the financial statements. The financial statements are prepared on the basis of the liquid reserve requirements of California Health and Safety Code Section 1792, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of California Health and Safety Code Section 1792. Our opinion is not modified with respect to this matter.

Restriction on Use

Our report is intended solely for the information and use of the members, management of the Company and the California Department of Social Services and is not intended to be, and should not be, used by anyone other than these specified parties.

Moss Adams LLP

Santa Rosa, California
April 26, 2013

CONTINUING CARE LIQUID RESERVE SCHEDULES

FORM 5-1
LONG-TERM DEBT INCURRED
IN A PRIOR FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	03/16/06	$0	$24,200	$292,700	$316,900
2	06/05/09	$23,100	$70,800	$0	$93,900
3	06/18/09	$6,900	$47,000	$0	$53,900
4	12/01/11	$0	$124,900	$1,219,400	$1,344,300
5					$0
6					$0
7					$0
8					$0
		TOTAL:	$266,900	$1,512,100	$1,809,000

(Transfer this amount to Form 5-3, Line 1)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: Varenna at Fountaingrove LLC / Varenna LLC

Long-Term Debt Maturing within 24 months

1. First Community Bank loan of $605,000. This loan matures April 2014. (this loan is represented as #3 on Form 5-1)

FORM 5-2
LONG-TERM DEBT INCURRED
DURING FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
1					$0
2					$0
3					$0
4					$0
5					$0
6					$0
7					$0
8					$0
	TOTAL:	$0	$0	0	$0

(Transfer this amount to Form 5-3, Line 2)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: Varenna at Fountaingrove LLC / Varenna LLC

FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	$1,809,000
2	Total from Form 5-2 bottom of Column (e)	$0
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	$300,000
4	**TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:**	$2,109,000

PROVIDER: Varenna at Fountaingrove LLC / Varenna LLC

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		$17,833,700
2	Deductions:		
	a. Interest paid on long-term debt (see instructions)	$266,900	
	b. Credit enhancement premiums paid for long-term debt (see instructions)	$1,512,100	
	c. Depreciation	$4,290,000	
	d. Amortization	$444,800	
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	$4,935,000	
	f. Extraordinary expenses approved by the Department	$0	
3	Total Deductions		$11,448,800
4	Net Operating Expenses		$6,384,900
5	Divide Line 4 by 365 and enter the result.		$17,493
6	**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount.		$1,311,966

PROVIDER: Varenna at Fountaingrove LLC / Varenna LLC
COMMUNITY: Varenna at Fountaingrove

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: Varenna at Fountaingrove LLC / Varenna LLC
Fiscal Year Ended: December 31, 2012

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended December 31, 2012 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year December 31, 2012 are as follows:

		Amount
[1]	Debt Service Reserve Amount	$2,109,000
[2]	Operating Expense Reserve Amount	$1,311,966
[3]	**Total Liquid Reserve Amount:**	$3,420,966

Qualifying assets sufficient to fulfill the above requirements are held as follows:

	Qualifying Asset Description	Amount (market value at end of quarter) Debt Service Reserve		Operating Reserve
[4]	Cash and Cash Equivalents	$5,965,450		$5,965,450
[5]	Investment Securities			
[6]	Equity Securities			
[7]	Unused/Available Lines of Credit			
[8]	Unused/Available Letters of Credit			
[9]	Debt Service Reserve			(not applicable)
[10]	Other: (describe qualifying asset)			
[11]	**Total Amount of Qualifying Assets Listed for Reserve Obligation:**	$5,965,450	[12]	$5,965,450
[13]	**Reserve Obligation Amount:**	$2,109,000	[14]	$1,311,966
[15]	**Surplus/(Deficiency):**	$3,856,450	[16]	$4,653,484

Signature:

(Authorized Representative)

Date:

William P Gallaher, Manager
(Title)

DSS - Reserve Report - Part of Form 5-5
Description of Reserves under SB 1212

Total Qualifying Assets Listed on Line 4	$	11,930,900	All Cash and Equivalents. No Investments or equities or lines of credit listed.

Please note that there is no restricted cash or equivalents included in the $11,930,900 listed for the liquid reserve requirement. Additionally, the $1,040,300 listed as restricted cash is held by the lender for the Varenna Assisted Living Loan.

Per Capita Cost of Operations

Operating Expenses per form 5-4 #1	$	17,833,700
Mean # of all Residents from form 1-1 #10		297.5
Per Capita Costs of Operations	$	59,945

04/29/2013

Continuing Care Retirement Community Disclosure Statement
General Information

FACILITY NAME: Varenna at Fountaingrove
ADDRESS: 1397-1505 Fountaingrove Pkwy, Santa Rosa, CA ZIP CODE: 95403 PHONE: 707-526-1226
PROVIDER NAME: Varenna at Fountaingrove FACILITY OPERATOR: Varenna LLC
RELATED FACILITIES: n/a RELIGIOUS AFFILIATION: n/a
YEAR OPENED: 2007 NO. OF ACRES: 29 MULTI-STORY: ☐ SINGLE STORY: ☐ BOTH: ☑
MILES TO SHOPPING CTR: <1 MILES TO HOSPITAL: 1.5

NUMBER OF UNITS:

INDEPENDENT LIVING		HEALTH CARE	
APARTMENTS - STUDIO		ASSISTED LIVING	60
APARTMENTS – 1 BDRM	6	SKILLED NURSING	
APARTMENTS – 2 BDRM	126	SPECIAL CARE	
COTTAGES/HOUSES	27	DESCRIBE SPECIAL CARE:	
% OCCUPANCY AT YEAR END	97%		

TYPE OF OWNERSHIP: ☐ NOT FOR PROFIT ☑ FOR PROFIT ☐ ACCREDITED: ☐ Y ☐ N BY: ______

FORM OF CONTRACT: ☐ LIFE CARE ☑ CONTINUING CARE ☑ FEE FOR SERVICE
☐ ASSIGN ASSETS ☐ EQUITY ☑ ENTRY FEE ☑ RENTAL

REFUND PROVISIONS (Check all that apply): ☑ 90% ☑ 75% ☑ 50% ☑ PRORATED TO 0% ☑ OTHER: 0 / 100%

RANGE OF ENTRANCE FEES: $ 160,000 TO $ 1,295,000 **LONG-TERM CARE INSURANCE REQUIRED?** ☐ Y ☑ N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: n/a

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: n/a OTHER: Physicians Report

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FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES

	AVAILABLE	FEE FOR SERVICE
BEAUTY/BARBER SHOP	☑	☑
BILLIARD ROOM	☑	☐
BOWLING GREEN	☑	☐
CARD ROOMS	☑	☐
CHAPEL	☐	☐
COFFEE SHOP	☑	☐
CRAFT ROOMS	☑	☐
EXERCISE ROOM	☑	☐
GOLF COURSE ACCESS	☑	☐
LIBRARY	☑	☐
PUTTING GREEN	☐	☐
SHUFFLEBOARD	☑	☐
SPA	☑	☐
SWIMMING POOL-INDOOR	☑	☐
SWIMMING POOL-OUTDOOR	☑	☐
TENNIS COURT	☐	☐
WORKSHOP	☑	☐
OTHER Theater / Ballroom	☑	☐

SERVICES AVAILABLE

	INCLUDED IN FEE	FOR EXTRA CHARGE
HOUSEKEEPING TIMES/MONTH	4 to 5	
NUMBER OF MEALS/DAY	1 to 3	
SPECIAL DIETS AVAILABLE	Yes	
24-HOUR EMERGENCY RESPONSE	☑	☐
ACTIVITIES PROGRAM	☑	☐
ALL UTILITIES EXCEPT PHONE	☑	☐
APARTMENT MAINTENANCE	☑	☐
CABLE TV	☑	☐
LINENS FURNISHED	☐	☐
LINENS LAUNDERED	☑	☐
MEDICATION MANAGEMENT	☑	☑
NURSING/WELLNESS CLINIC	☑	☐
PERSONAL NURSING/HOME CARE	☑	☐
TRANSPORTATION-PERSONAL	☑	☐
TRANSPORTATION-PREARRANGED	☑	☐
OTHER ______	☐	☐

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: Varenna at Fountaingrove LLC

CCRCs	LOCATION (City, State)	PHONE (with area code)
Varenna at Fountaingrove	Santa Rosa, CA	707-526-1226

MULTI-LEVEL RETIREMENT COMMUNITIES

FREE-STANDING SKILLED NURSING

SUBSIDIZED SENIOR HOUSING

*** PLEASE INDICATE IF THE FACILITY IS LIFE CARE.**

PROVIDER NAME: Varenna at Fountaingrove LLC

	2009	2010	2011	2012
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)	$9,801,200	$11,702,600	$12,955,700	$13,318,000
LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest)	$9,736,000	$11,246,00C	$12,193,100	$12,832,000
NET INCOME FROM OPERATIONS	$65,200	$456,600	$762,600	$486,000
LESS INTEREST EXPENSE	-$2,633,500	-$2,531,200	-$2,752,000	-$266,900
PLUS CONTRIBUTIONS	$13,230,800	$10,115,40	$43,795,80(	$15,398,40
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	$143,200	$64,700	$32,900	$23,300
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	$10,805,700	$8,105,500	$41,839,30(	$15,640,80(
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	$23,235,300	$16,738,100	$1,809,400	$2,206,100

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
East West Bank	$56,000,000	0.24	12/25/11	12/11/21	10 Years
East West Bank / CSCDA	$11,386,000	0.24	03/01/06	03/01/41	35 Years
East West Bank / CSCDA	$5,614,000	0.24	03/01/06	03/01/41	35 Years
First Community Bank	$589,900	8.00	06/18/09	03/01/14	3 Years 14 Months
Luther Burbank Savings	$1,372,500	5.20	06/05/09	07/01/39	30 Years

FINANCIAL RATIOS (see next page for ratio formulas)

	2009 CCAC Medians 50th Percentile *(optional)*	2010	2011	2012
DEBT TO ASSET RATIO		.52	.62	.58
OPERATING RATIO		.96	.94	.96
DEBT SERVICE COVERAGE RATIO		5.63	.82	1.33
DAYS CASH-ON-HAND RATIO		673	453	339

HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE

	2009	%	2010	%	2011	%	2012
STUDIO	$2,870	3.9%	$2,982	2.0%	$3,042	3.9%	$3,161
ONE BEDROOM	$4,083	3.9%	$4,242	2.0%	$4,327	3.9%	$4,496
TWO BEDROOM	$5,151	3.9%	$5,352	2.0%	$5,459	3.9%	$5,672
COTTAGE/HOUSE	4395	4.0%	$4,571	4.0%	$4,754	4.0%	$4,944
ASSISTED LIVING		0.0%		0.0%		0.0%	
SKILLED NURSING		0.0%		0.0%		0.0%	
SPECIAL CARE		0.0%		0.0%		0.0%	

COMMENTS FROM PROVIDER:

PROVIDER NAME: Varenna at Fountaingrove LLC

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\text{Total Operating Expenses} \; \text{-- Depreciation Expense} \; \text{-- Amortization Expense}}{\text{Total Operating Revenues} \; \text{-- Amortization of Deferred Revenue}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\text{Total Excess of Revenues over Expenses} + \text{Interest, Depreciation, and Amortization Expenses} \; \text{-- Amortization of Deferred Revenue} + \text{Net Proceeds from Entrance Fees}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\text{Unrestricted Current Cash And Investments} + \text{Unrestricted Non-Current Cash and Investments}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

Note: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

Varenna
Oakmont Signature Living

July 30, 2012

Elba Vassar
1401 Fountaingrove Pkwy M222
Santa Rosa, CA 95403

Dear Mrs. Vassar:

On September 22, 2012 you will have been a resident of Varenna for three years. We sincerely hope that thus far, you are enjoying all the services, amenities, activities, and feeling of community and security that Varenna offers. Please accept our sincerest gratitude for choosing Varenna as your home.

Due to our increased year over year costs related to energy, employee benefits, and insurance, we will be implementing a monthly fee increase effective October 1, 2012. We at Varenna are cognizant of our challenging economic times and therefore will only increase the monthly fee on your residence by 3.9%.

Therefore, your current monthly rent of $2,962.09 will be increased $115.52 per month to a new monthly rent of $3,077.61.

Warmest Regards,

Torsten Hirche
Executive Director
RCFE#496803049

1401 Fountaingrove Pkwy • Santa Rosa, CA 95403
Main (707) 526-1226 • Fax (707) 526-9018
oakmontseniorliving.com

Project	Name	Sex	Birthdate	Move-in	Contract	To be Due	Age	Life Exp	Refund Exp	PVM	PV	x 20%			Summit Bank	Difference
Varenna	[redacted]			06/09/12	90%	$ 517,860	90	3.957	13.957	0.442	$ 228,894	$ 45,779				
Varenna	[redacted]			06/23/12	90%	$ 335,475	91	3.67	13.67	0.442	$ 148,280	$ 29,656				
Varenna	[redacted]			07/29/12	90%	$ 342,090	86	6.494	16.494	0.394	$ 134,783	$ 26,957				
Varenna	[redacted]			08/03/12	90%	$ 329,805	83	7.952	17.952	0.35	$ 115,432	$ 23,086				
Varenna	[redacted]			09/04/12	90%	$ 620,100	84	5.854	15.854	0.394	$ 244,319	$ 48,864				
Varenna	[redacted]			10/03/12	0%	$ 65,336	82	8.501	18.501	0.331	$ 21,626	$ 4,325				
Varenna	[redacted]			10/22/12	90%	$ 499,905	82	8.501	18.501	0.331	$ 165,469	$ 33,094				
S	[redacted]											$ (33,094)				
Varenna	[redacted]			11/30/12	50%	$ 401,714	80	9.62	19.62	0.312	$ 125,335	$ 25,067				
Varenna	[redacted]			11/27/12	90%	$ 762,300	74	13.189	23.189	0.262	$ 199,723	$ 39,945				
Varenna	[redacted]			11/07/12	90%	$ 436,590	79	10.184	20.184	0.312	$ 136,216	$ 27,243				
Varenna	[redacted]			12/21/12	50%	$ 431,429	74	10.83	20.83	0.294	$ 126,840	$ 25,368				
Varenna	[redacted]			01/04/13	0%	$ 37,312	78	8.641	18.641	0.331	$ 12,350	$ 2,470				
Varenna	[redacted]			01/15/13	90%	$ 609,210	67	17.493	27.493	0.207	$ 126,106	$ 25,221				
Varenna	[redacted]			03/06/13	100%	$ 390,100	94	3.579	13.579	0.442	$ 172,424	$ 34,485				
Varenna	[redacted]			03/28/13	100%	$ 988,900	80	9.62	19.62	0.312	$ 308,537	$ 61,707				
Varenna	[redacted]			04/01/13	100%	$ 1,011,150	91	4.501	14.501	0.417	$ 421,650	$ 84,330				
Varenna	[redacted]			04/30/13	50%	$ 198,240	73	13.761	23.761	0.247	$ 48,965	$ 9,793				
Varenna	[redacted]			04/26/13	90%	$ 870,210	78	10.779	20.779	0.294	$ 255,842	$ 51,168				
Varenna	[redacted]			05/21/13	90%	$ 499,905	84	7.438	17.438	0.371	$ 185,465	$ 37,093				
Varenna	[redacted]			05/15/13	90%	$ 333,090	87	4.806	14.806	0.417	$ 138,899	$ 27,780				
Balance @ 5/31/13														$ 630,337	630,423.11	(86.18)